British Columbia Lottery Corporation

Service Plan
Fiscal 2003/04 – 2005/06

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Message From the CEO

On behalf of the Board of Directors and employees of British Columbia Lottery Corporation (BCLC), I am pleased to present the Corporation's Fiscal 2003/04 – 2005/06 Service Plan.

After more than 25 years of providing high-quality gaming entertainment to British Columbians, the Corporation is facing new challenges and exciting opportunities. Our Service Plan is designed to meet these challenges in a rapidly evolving industry and increasingly competitive entertainment marketplace.

This Service Plan sets new benchmarks for high-quality gaming entertainment, revenue contributions to government and social responsibility. It renews our commitment to uphold the highest standards of fairness, honesty and integrity in our mandate to conduct and manage gaming in British Columbia.

BCLC employees are proud of the revenues generated for vital public services. In fiscal 2002/03 the Corporation will generate $670 million in net income which is distributed to Government for public service programs including:

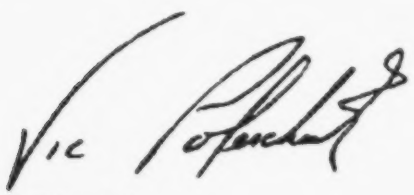
- over $334 million to support health, education, social and other government programs;
- over $150 million dedicated directly to Healthcare special programs;
- over $128 million distributed to about 2,300 charitable organizations for community services, projects and benefits all throughout the Province;
- nearly $38 million distributed to municipalities for community capital and operating programs; and
- $4 million dedicated to fund special programs and treatment services to address problem gambling.

The Corporation's Service Plan will position the organization to increase our contribution to Government for health, social, charitable, municipal and other programs over the next three-year period within the government's policy framework for gaming.

We are also equally proud of our significant economic contributions generated throughout British Columbia including over $600 million in prizes paid to British Columbians; $310 million paid to our lottery, casino and bingo partners and over $130 million in the purchase of equipment, goods and services. Through this economic activity, it is estimated that the gaming industry is responsible for the direct employment of more than 8,500 people and more than another 5,000 indirect jobs within the province.

The Corporation will also continue to play a strong leadership role in the stewardship of the gaming business in British Columbia to ensure that gaming is presented in a socially responsible manner. This includes ensuring that appropriate problem gambling awareness, education and research programs are in place. Appropriate treatment programs will continue to be available for the small percentage of the adult population who experience problems with gambling.

In accordance with the requirements and spirit of the *Budget Transparency and Accountability Amendment Act*, BCLC is pleased to present our Service Plan for the period April 1, 2003 to March 31, 2006.



Vic Poleschuk
President and CEO

Corporate Overview

BCLC is responsible to conduct, manage and operate lotteries, casinos and commercial bingo in British Columbia. With its headquarters in Kamloops and a sales and marketing office in Richmond, the Corporation employs a full-time equivalent (FTE) of approximately 560 staff. This includes employees based in our two offices, as well as lottery, casino, and bingo support staff in gaming operations throughout the province.

The Corporation is projecting sales of $1.8 billion and net income of $670 million in fiscal 2002/03.

The Corporation contracts for the sale of its products through a private sector network of about 4,000 lottery retailers, 19 casinos, and 34 commercial bingo halls. Lottery retailers receive an industry-standard commission rate to sell the Corporation's on-line and traditional lottery products. The Corporation has partnered with eight private sector casino service companies. They provide, under contract, both casino facilities and day-to-day operational services, including casino staffing, for a service fee based on revenue generated. The Corporation also has contractual agreements with commercial, independent and charitable bingo service providers who receive a service fee based on sales.

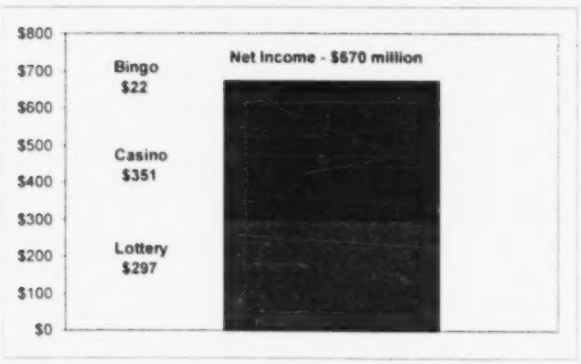
In fiscal 2002/03, BCLC will make significant economic contributions to British Columbia communities and the Government of British Columbia. These benefits include more than $600 million in prizes to British Columbians, $310 million in commissions and service fees to lottery, casino and bingo service business partners, approximately $130 million in purchase of equipment, goods and services, and $670 million in net income reflected in the Government of British Columbia's summary financial accounts.

These funds are used to support a variety of public service programs including health care, education, social, charitable, municipal and other Government programs as noted in Figure 1.

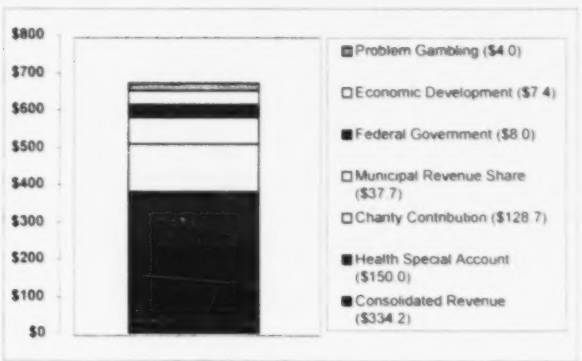
Gaming has also created significant direct and indirect employment opportunities in British Columbia. It is estimated that the gaming industry is responsible for the direct employment of more than 8,500 people and more than 5,000 indirect jobs.

Figure 1: Fiscal 2002/03 Sources of Gaming Income and Distribution

Sources of Net Income



Distribution of Net Income



Strategic Context

OUR MANDATE

Pursuant to amendments to the Criminal Code of Canada in 1969 and enabling legislation, British Columbia Lottery Corporation was incorporated on October 25, 1984 and is continued under the *Gaming Control Act of British Columbia* (2002). Prior to 1985, the Province of British Columbia was a partner in the Western Canada Lottery Foundation.

As an agent of the Crown, the Province has designated the Corporation as the authority to conduct and manage lottery schemes within British Columbia. This includes the marketing of nationwide and regional lottery games in association with other provinces of Canada. Under current provincial gaming legislation, the Corporation's mandate includes responsibility to:

- Conduct, manage and operate lottery gaming
- Conduct, manage and operate casino gaming
- Conduct, manage and operate commercial bingo gaming

In September 2001, the Corporation's responsibilities were expanded to include the marketplace management of horse racing in British Columbia. The Corporation's specific role is yet to be determined.

BCLC is responsible to the Minister of Public Safety and Solicitor General, through a Board of Directors appointed by Government.

OUR VISION STATEMENT

To Be a Publicly Respected, Performance-Driven Corporation

This vision entails the following:

- BCLC will be a performance driven organization that encourages accountability and values innovation
- We believe integrity is fundamental to everything we do

Our Mission Statement

> The mission of the British Columbia Lottery Corporation is to provide high-quality gaming entertainment in a socially responsible manner, generating income for the public good

Our Values

Integrity	The games that we offer, and the way we conduct business, are fair, honest and trustworthy
Social Responsibility	Everything we do is done with consideration of its impact on the people and communities of British Columbia
Innovation	We encourage and seek ideas that will improve our business and decide and act quickly in response to strategic and competetive market changes
Respect	Our workplace fosters openness, mutual respect and individual development

Planning Context and Key Strategic Issues

Macro Trends – Scanning Ahead

BCLC, like other major businesses, is experiencing significant changes in the environment and marketplace in which it operates. Rapidly evolving technology, increasing competition from both within and outside of British Columbia's borders, the Internet, changing demographics and changes in political and social attitudes are impacting how gaming is conducted and managed in British Columbia.

Perhaps most significantly, the responsibility to conduct and manage gaming in the province places the Corporation's business at the centre of one of British Columbia's most sensitive public policy areas.

The following environmental scan identifies the critical issues, opportunities and challenges ahead. It guides strategic management of the Corporation to achieve the goals and objectives as identified in this Service Plan.

Corporate Mandate

On September 14, 2001, Government announced a change in the gaming regulatory and operational model for British Columbia. The five agencies responsible for gaming – Gaming Policy Secretariat, British Columbia Gaming Commission, B.C. Racing Commission, Gaming Audit and Investigation Office and BCLC were consolidated into two organizations – BCLC and Gaming Policy and Enforcement Branch (GPEB). Both organizations report to the Ministry of Public Safety and Solicitor General. GPEB, a branch of the Ministry of Public Safety and Solicitor General, is responsible for the development of policy, standards, regulation and enforcement for all gaming in British Columbia. BCLC is responsible to conduct, manage and operate lotteries, casinos, and commercial bingo and is responsible for the marketplace management of horse racing in British Columbia. Commercial bingo and horse racing represent new responsibilities for the Corporation.

On August 19, 2002, a new law to strengthen and streamline gaming came into effect, formalizing government's earlier policy decisions. The *Gaming Control Act* establishes a comprehensive framework for regulating and managing gaming. It brings much needed certainty and stability to the gaming marketplace in BC.

Core Services Review

In June 2001, Government identified the Core Services Review as one of the key initiatives in the new strategic vision for British Columbia. The Core Services Review was a comprehensive and rigorous examination of all provincial programs, activities and business units. Its overall objective was to ensure that government is efficient and effective. In February 2002, Government affirmed the Corporation's mandate and approved the organization's Core Services Review recommendations. Since this date, the Corporation has achieved its operating cost reduction targets, assumed responsibility for commercial bingo operations and opened two new casinos.

Products and Markets

The Corporation currently markets three major forms of gaming entertainment in British Columbia — lottery, casino and bingo. Lotteries have been part of the retail market in British Columbia for almost thirty years and are considered a mature product. Over the last five-year period, growth in lottery sales has roughly matched inflation.

While casinos have been part of the British Columbia marketplace for some time, only since the Government policy decision to introduce slot machines in 1997 have casinos become a significant generator of gaming revenue for the Province. While there is still considerable growth opportunity for

casino gaming in British Columbia, moderate growth is forecast and will be within the framework of Government's gaming policy.

Bingo is probably the oldest form of gaming in British Columbia. In recent years, the bingo market in British Columbia and Canada has been declining. This is primarily due to changing demographics, technology and competition from other forms of gaming entertainment. With the Corporation assuming responsibility for commercial bingo on January 15, 2002, the organization believes there are opportunities for growth through the relocation and upgrading of facilities and the development of innovative new products.

Technology

Rapidly evolving communications and entertainment technologies mean new competition, additional costs and changing customer expectations. The Internet is dissolving historical commercial and geographic barriers, but technology is also bringing new efficiencies, new markets and new products.

The Corporation is acting to ensure that enabling technologies and skills are in place to support new revenue opportunities, innovation and operational effectiveness. Over the next three-year period, the Corporation will invest in eBusiness technologies with a focus on improving internal processes, business-to-business and business-to-consumer opportunities.

Competition

Increasing competition for the discretionary dollars of British Columbians will continue to affect the Corporation's business environment. With globalization, e-commerce, and the advent of "big-box" retailers, consumer attitudes and expectations are shifting.

Consumers are becoming more sophisticated and knowledgeable about their options in the marketplace when it comes to pricing, brand loyalty and fulfilment in all discretionary spending. High-quality and larger gaming facilities in other jurisdictions will continue to set the competitive standard for British Columbia casinos.

Competing lotteries, expanded gaming in neighbouring jurisdictions and Internet gaming present strong new challenges. It is estimated current Internet gaming revenues are in the range of $4 billion (U.S.) worldwide and will increase to more than $10 billion in the next three to four years.

While the Corporation is facing increasing competition, the organization is well positioned to compete through new products, new or upgraded gaming facilities and a strong knowledge, expertise and skill advantage in the British Columbia entertainment marketplace.

Consumers

The expectations of lottery, casino and bingo players are constantly changing as demographics shift, new trends evolve and economic factors change. The Corporation's goal is to provide high quality gaming entertainment. This will be achieved through the development and introduction of innovative new products and to deliver these products through gaming facilities and distribution channels that are both convenient and fun.

While continually adapting our products to meet the changing expectations of consumers, the Corporation will balance product innovation with our responsibility to market games in a socially responsible manner.

Responsible Gaming

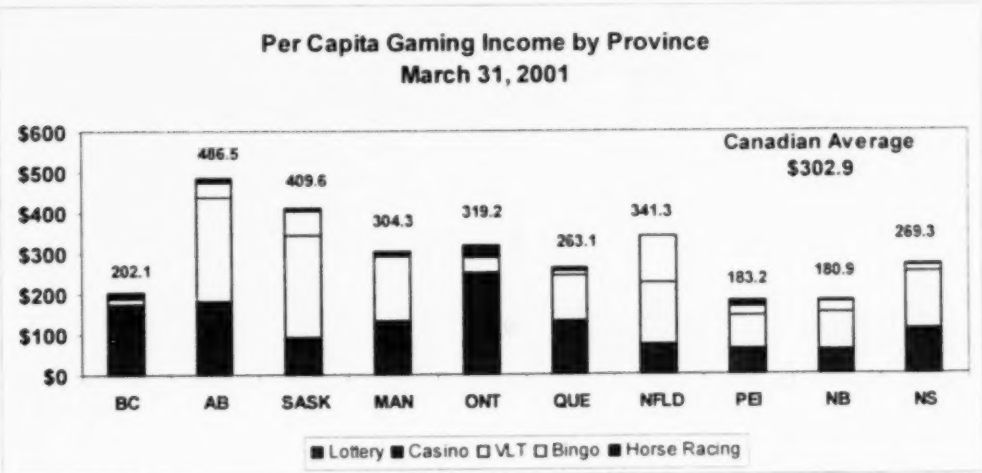
The Corporation and Government recognize that aspects of gaming policy are inherently controversial. Of the total adult population, it is estimated 96% do not have problems with gambling, and most that choose to participate, do so for social and recreational purposes. About 4% have varying degrees of gambling problems. The Corporation recognizes the importance of ensuring that problem gambling issues are addressed through public awareness, education, prevention and treatment programs and will continue to play a strong leadership role in ensuring that an appropriate problem gambling risk management strategy and programs are in place.

Market Development – A Canadian Context

With the introduction of a new British Columbia gaming policy in 1997, the Corporation's sales have increased from $867 million to a projected $1.8 billion in fiscal 2002/03. The majority of the increase has resulted from the introduction of slot machines in community casinos, the opening of four new destination casinos, and BCLC assuming responsibility for commercial bingo operations.

While gaming in British Columbia has grown significantly over the last few years, relative to other provinces in Canada, the adult per capita levels of gaming are moderate. In 1992, on a per capita basis, British Columbia ranked fourth among the provinces. Only the Atlantic provinces which had introduced video-lottery terminals ranked ahead of British Columbia. Since this date, British Columbia's per capita gaming income has declined to eighth position, approximately two-thirds of the national average.

Figure 2: Per Capita Adult Gaming in Canada – March 31, 2001



Source: Canadian Gaming News July 2002

British Columbia's lower per capita gaming revenues reflect the more rapid expansion of gaming in other provinces, specifically gaming relating to the introduction of large-scale casinos and video-lottery terminals. Currently, British Columbia has about one slot machine for every 1,000 adult residents. This compares to the Canadian average where there are three slot machines or video-lottery terminals for every 1,000 adults.

Goals, Objectives, Strategies and Performance Measures

As part of BCLC's planning process, the Corporation's strategic plan is updated on an annual basis. The strategic plan provides a long-term vision for the development of lottery, casino and bingo gaming in British Columbia. It also serves as the foundation for the Corporation's Service and Business Plans.

In this year's Service Plan, the Corporation reduced the number of strategic goals from six to four, added seven new performance measures, and dropped eleven measures that had been reported on in the previous year's plan. The Corporation's Service Plan has been changed to align with government gaming policy, to reflect input and guidance received from the new Board and to address developments resulting from both the Core Services Review and enactment of new gaming legislation.

1. To Provide High-Quality Gaming Entertainment

BCLC is a commercial Crown corporation that offers consumer products in a competitive marketplace. To succeed, the Corporation must provide high quality gaming products that meet or exceed consumer expectations.

Over the next three-year period, the Corporation will enhance and expand its lottery distribution channel and strengthen existing private sector relationships to facilitate the development and delivery of innovative lottery products. The Corporation will also increase investment in product research and enhance distribution channels to provide higher levels of entertainment and convenience to our customers.

The Corporation will focus on enhancements to casino gaming to attract a broader player base, increase the entertainment value of our games, compete more effectively with out-of-province casinos and increase the economic and tourism benefits to communities. Development of competitive products, the establishment of improved casino facilities through eligible casino relocations and improved customer service will be a key focus for the organization.

Bingo gaming will undergo a transformation in British Columbia as the Corporation, in partnership with the bingo industry, develops a comprehensive marketing and business plan designed to build a strong and vibrant industry.

Objectives					
• Increase the quality and entertainment value of our gaming products and facilities in BC					
Strategies					
• Improve the quality of casinos by completing all eligible casino relocations and through upgrades of existing facilities • Invest in the development of more innovative and interactive products offered to consumers					
Performance Measures	**Fiscal 01/02 Actual**	**Fiscal 02/03 Target**	**Fiscal 03/04 Projection**	**Fiscal 04/05 Projection**	**Fiscal 05/06 Projection**
Player Participation	n/a	60%	61%	62%	63%

2. To be a Socially Responsible and Respected Organization that has a Broad Base of Public Support

As the government agency responsible for gaming in British Columbia, the Corporation has a responsibility to ensure gaming activity is conducted and managed in a socially responsible manner.

To achieve this goal, the Corporation will support the development of a province-wide comprehensive framework that promotes responsible gaming practices; be open and transparent in our relationships with the public and our stakeholders; and communicate with the public to raise the awareness of the beneficiaries of gaming in BC.

Objectives

- To build greater public support and trust

Strategies

- Increase the public's awareness of the beneficiaries of gaming in BC
- Promote and support responsible gaming programs in BC

Performance Measures	Fiscal 01/02 Actual	Fiscal 02/03 Target	Fiscal 03/04 Projection	Fiscal 04/05 Projection	Fiscal 05/06 Projection
Public support of gaming	n/a	57%	58%	59%	60%
Public support of BCLC	n/a	70%	71%	72%	73%
Public awareness of the beneficiaries of gaming	29%	30%	35%	40%	45%
Public recognition for social responsibility	57%	58%	59%	60%	60%

3. To be an Organization that is Performance Driven, Encourages Innovation and is Accountable for its Actions

BCLC is continuing to manage transition and change, with the objective of attaining high levels of employee performance and satisfaction as well as creating opportunities for individual skill and career development.

BCLC's goal is to attract, develop and retain the best possible people in a workplace that values and rewards innovation, is performance driven and is accountable for its actions.

Objectives					
• To be a high performance organization					
Strategies					
• Implement a performance management system that recognizes and rewards innovation, results and accountability • Engage all employees in the success of the organization • Attract, develop and retain the right people with the right skills through employee development and competitive compensation policies					
Performance Measures	**Fiscal 01/02 Actual**	**Fiscal 02/03 Target**	**Fiscal 03/04 Projection**	**Fiscal 04/05 Projection**	**Fiscal 05/06 Projection**
Net Income per employee ($000)	$981	$1,153	$1,295	$1,447	$1,552
Employee Satisfaction	n/a	80%	82%	85%	90%

4. To Generate Net Income for the Public Good

Gaming entertainment generates significant funds for economic and community benefits for British Columbia. The net income that BCLC distributes to Government flows back to communities through programs for the public good, including health and education, social and other government programs, revenue to charities, revenue sharing disbursements to host local governments where casinos are located, and problem gambling education and treatment. Gaming also creates thousands of direct and indirect job opportunities where lottery products are sold, at casino and bingo locations and through support and service to the industry.

BCLC's goal is to effectively generate net income for the Province of BC within policy guidelines established by government.

This goal will be achieved through the continued development of innovative new products, the upgrading and/or relocation of casino and bingo facilities, growth in the lottery, casino and bingo networks to meet consumer demand (as approved by government), and the continued refinement of operations to improve efficiency.

Over the next three-year period the Corporation will also continue to build the technology infrastructure to support current and future growth.

Objectives

- Maximize income to the Province of BC within the policy guidelines established by Government
- Operate the business in the most effective and efficient manner possible

Strategies

- Continue to develop and invest in products, gaming facilities and distribution channels that generate net income
- Develop and implement a viable business model for commercial bingo
- Upgrade the organization's technology infrastructure to support current and future growth

Performance Measures	Fiscal 01/02 Actual	Fiscal 02/03 Target	Fiscal 03/04 Projection	Fiscal 04/05 Projection	Fiscal 05/06 Projection
Net Income ($m)	$606	$670	$725	$825	$900
Profit Margin	37.7%	37.4%	38.2%	40.0%	41.4%
Profit per Capita	$189	$206	$220	$245	$263
Operating Cost Ratio	5.5%	4.7%	4.8%	4.6%	4.6%

Summary Financial Outlook

	Fiscal 2002/03 Forecast	Fiscal 2003/04 Budget	Fiscal 2004/05 Forecast	Fiscal 2005/06 Forecast
Revenue ($ in thousands)				
Lottery	$975,000	$990,000	$1,020,000	$1,070,000
Casino	625,000	725,000	850,000	905,000
Bingo	190,000	185,000	195,000	200,000
Total Revenues	**$1,790,000**	**$1,900,000**	**$2,065,000**	**$2,175,000**
Total Expenses	1,120,000	1,175,000	$1,240,000	$1,275,000
Net Income	**$670,000**	**$725,000**	**$825,000**	**$900,000**

Key Assumptions

- Assumes that all local government approvals which are required under the *Gaming Control Act* are received within the timeframes contemplated in the forecasts
- Relocation of all eligible community casinos to new facilities will be completed by fiscal 2004/05
- Moderate growth of the lottery network with the continued introduction of innovative new products
- The Corporation will be successful in reversing the decline in bingo sales that has been evident over the last several years

Forecast Risks and Sensitivities

- Unforeseen delays in obtaining local government approvals for eligible casino relocations will impact on revenue and net income projections
- Assumes that the economic downturn that has impacted gaming revenues during fiscal 2002/03 will not continue over the planning period
- Assumes casino revenues are not further impacted by cross border competition
- Assumes that unregulated Internet gaming will not become a significant competitive threat to BC gaming revenues over the next three-year period

Major Capital Information

British Columbia Lottery Corporation has no plans for individual capital programs that exceed $50 million.

Appendix 1 - Performance Measure Descriptions

INTRODUCTION

As part of the Corporation's planning process this year, the organization reduced the number of strategic goals from six to four, added seven new performance measures and dropped eleven measures that had been reported on in the previous year's Service Plan.

The Corporation's Service Plan and the refinement of performance measures contained in the document reflect several developments:

- Direction from government on the development and implementation of gaming policy in British Columbia
- The introduction and enactment of the *Gaming Control Act* in August 2002 that strengthens and streamlines the management and regulation of gaming in British Columbia
- The results of the Core Services Review that emphasized clarity of focus and operational effectiveness and efficiency for government organizations
- Direction from the Corporation's new Board that focuses the organization more clearly on performance, accountability and fewer strategic objectives that have a direct impact on the achievement of the Corporation's goals

FISCAL 2003/04 PERFORMANCE MEASURES

Player Participation

This category measures the gaming participation rate of BC residents who have played a lottery game or visited a bingo or casino facility in the past month. This information is obtained through a quarterly consumer survey completed by an external research agency.

Public Support of BCLC

This category measures the percentage of people surveyed in BC who have a favourable impression of the British Columbia Lottery Corporation. In a quarterly survey conducted by an external research agency, individuals are asked if they view the Corporation as very favourable, somewhat favourable, somewhat unfavourable or very unfavourable.

Public Support of Gaming

This category measures the percentage of people in BC who have a positive perception of how gaming is conducted and managed in British Columbia. In a quarterly survey conducted by an external research agency, individuals are asked if they agree strongly, agree somewhat, agree slightly, disagree slightly, disagree somewhat or disagree strongly with the statement, "I fully support the existence of gaming in British Columbia".

Awareness of the Beneficiaries of Gaming

This category measures the percentage of people in BC who have an awareness of how the income generated by gaming is distributed. In a quarterly survey conducted by an external research agency, individuals are asked if they are very informed, somewhat informed, not very informed, not informed at all in regards to how gaming proceeds are distributed in British Columbia.

Public Recognition for Responsible Gaming

This category measures the percentage of people in BC who agree that the Corporation markets gaming in a socially responsible way. In an annual survey conducted by an external research agency, individuals are asked on a scale of 1 to 7 if they agree that BCLC markets gaming in a socially responsible manner (1 means you disagree completely and 7 means you agree completely).

Net Income per Employee

This category measures the income generated by each employee by dividing the net income generated by the Corporation by the number of full-time equivalents.

Employee Satisfaction

This category measures the overall employee satisfaction of employees of the British Columbia Lottery Corporation. The Corporation, with the assistance of an external consulting firm, conducted a survey of its employees in April 2000. Employees were asked to rate their satisfaction on 20 attributes relating to employee satisfaction. The Corporation will continue to measure employee satisfaction with periodic informal surveys and a formalized survey at least once every three years.

Net Income

This category measures the Corporation's net income as reported in the consolidated financial statements, in accordance with generally accepted accounting principles.

Profit Margin

This category measures the Corporation's profit margin based on the consolidated financial statements. Profit margin is calculated by dividing total sales by net income.

Profit Per Capita

This category measures the per capita profit of gaming in British Columbia. Profit per capita is calculated by dividing net income by the total number of individuals over the age of nineteen in BC.

Operating Cost Ratio

This category measures the ratio of operating costs as a percentage of sales. Operating costs include all costs excluding direct costs, amortization, other income and GST.